



# Education Trust Board

## INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

July 28, 2014

Dr. José Z. Garcia, Chairman  
Robert J. Desiderio, Vice-Chair  
Trevor Serrao

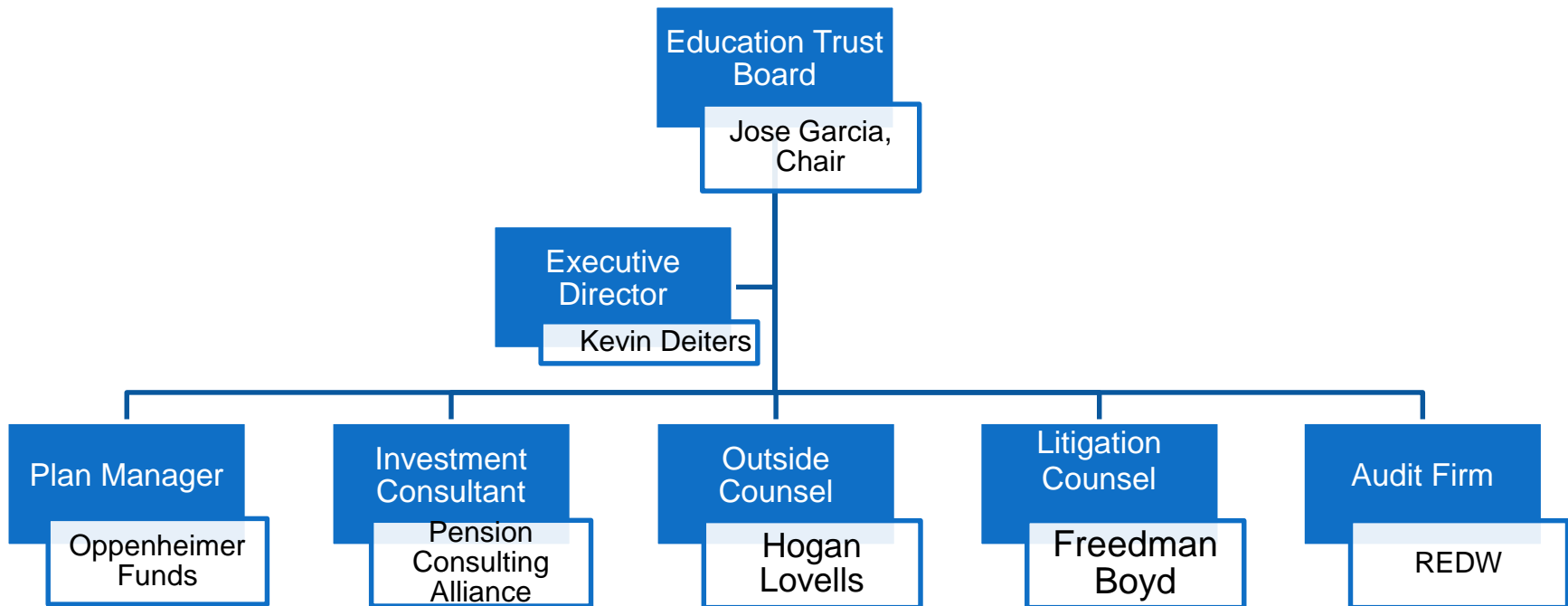
Kevin Deiters, Executive Director

# About the ETB



- The ETB is the governing body for New Mexico's college savings programs (\$2.3 billion).
- The ETB is responsible for making rules and regulations for the development and implementation of the Education Trust Act.
- The Education Trust Act was amended in 2014 with the enactment of HB215 (by Jim Trujillo).
- The ETB does not receive any general funds and is funded entirely by fee revenues.
- The ETB is administratively attached to the Higher Education Department.

# About the ETB



# About College Savings: 529 Plan Basics

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- A 529 Plan is an education savings plan operated by a state or educational institution designed to help families set aside funds for future college costs.
- Federal tax benefits: 529 accounts grow tax-free, so you pay no federal tax on your earnings.
- Withdrawals: Withdrawals for qualified higher education expenses are distributed federal tax free.

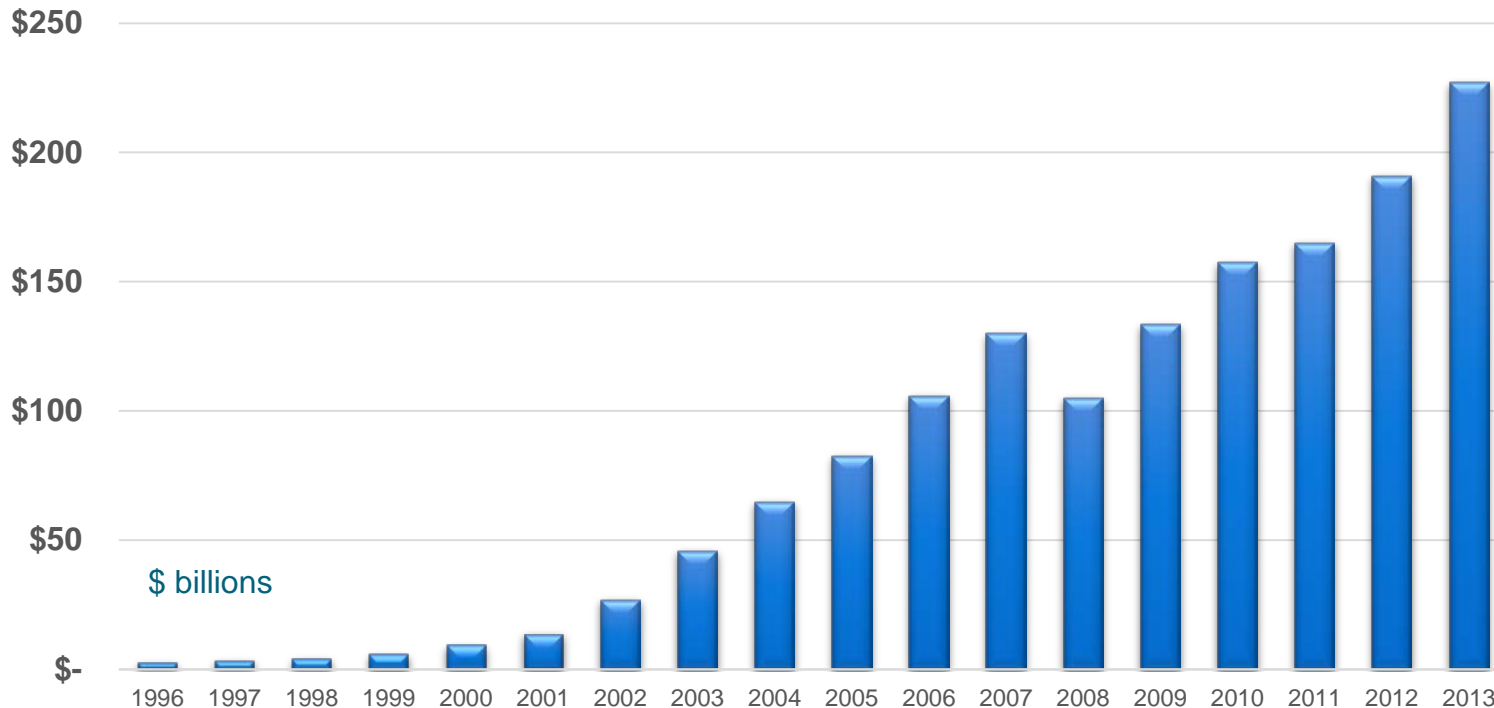
# About College Savings: State Tax Benefits

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- State tax benefits: All earnings of a New Mexico Account Owner or Designated Beneficiary are exempt from New Mexico individual income taxes, subject to exemptions.
- Contributions by a New Mexico tax payer may be deducted from net income for New Mexico individual income tax purposes.

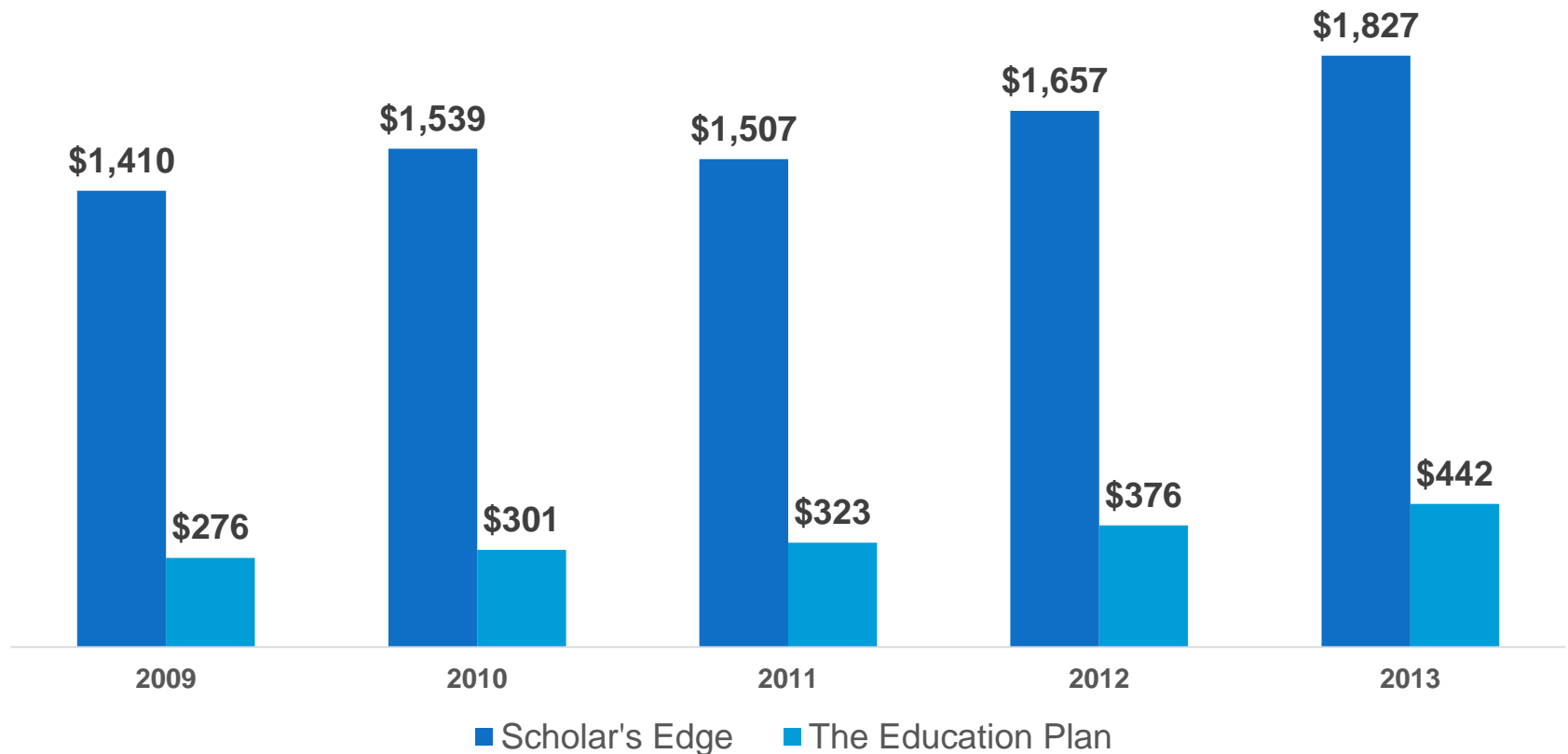
# About College Savings: National Asset Growth



# About College Savings: New Mexico Asset Growth



## Total Assets 2009-2013 (\$millions)



# NM College Savings: Plan Options

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## The Education Plan

- Direct-Sold Plan
- 20,412 Accounts
- \$450.0 million
- No-Load Funds
- Age-Based and Static Portfolios

## Scholar's Edge

- Advisor-Sold Plan
- 125,650 Accounts
- \$1.84 billion
- Age-Based, Custom Choice and Static Portfolios



# NM College Savings: Program Highlights



Quarter Period Ending 3/31/2014

Plan	Scholar's Edge	The Education Plan	Total
Assets	\$ 450,076,801	\$ 1,845,818,224	\$ 2,295,895,025
Accounts	20,412	125,650	146,062
Avg. Balance	\$ 22,050	\$ 14,690	\$ 15,719
Contributions	\$ 9,429,281	\$ 37,789,741	\$ 47,219,022
Redemptions	\$ 7,846,033	\$ 37,124,311	\$ 44,970,344
Net Flows	\$ 1,583,248	\$ 665,430	\$ 2,248,678

# NM College Savings: Recent Board Action



- ETB continues to take steps to improve performance and reduce fees.
- ETB refunded \$274,841 to NM residents for administrative fees paid during 2013.
- Approved \$450,000 marketing campaign for television, radio, and print.
- Approved \$750,000 for college scholarships.
- ETB issued RFP for program manager.

# NM College Savings: Investment Performance



The Savingforcollege.com Plan Composite Rankings are derived using the plans relevant portfolio performance in seven unique asset allocation categories.

Plan Composite Performance Rankings for the three-year period ending March 31, 2014:

- Scholar's Edge is the seventh best performing advisor-sold plan in the nation.
- The Education Plan is the eighth best performing plan direct-sold plan in the nation.

# NM College Savings: Lower Fees

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- Lowered investment fees by converting most underlying mutual funds from “Y” class shares to institutional shares.
- Lowered administrative fees for NM residents by issuing fee refunds.

# ETB Scholarships

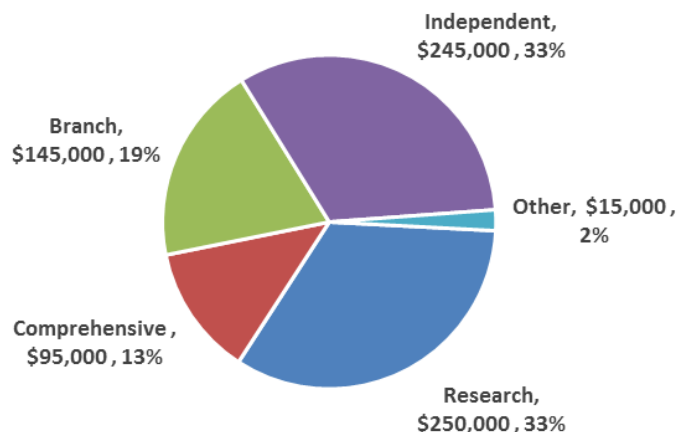


- ETB made changes to its scholarship program to better address student need.
- Provided financial aid departments with more flexibility to serve both new and continuing students.
- ETB scholarships will now cover tuition, fees, supplies, and books.

# ETB Scholarships



ETB Pathways Scholarships: FY 2015  
Allocation by Sector



## New Allocation Method for FY15

ETB allocated its scholarship funds among all institutions based upon student need and GPA that resulted in a shift of funding away from UNM and NMSU to the Comprehensive universities and two-year colleges.

Historically, the Research institutions have awarded 76 percent of ETB scholarships.

# Program Manager Search Tentative Schedule



- RFP Issued (5/6/2014)
- Proposal Due Date (7/2/2014)
- Proposal Report to ETB (8/20/24)
- Presentations to ETB (10/15/2014)
- Board Vote (12/10/2014)
- Transition Period (Dec – June)
- Contract Start Date (7/1/2014)

# Need more information?

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[www.theeducationplan.com](http://www.theeducationplan.com)  
(877-337-5268)

**Kevin Deiters**  
**Education Trust Board**  
[Kevin.deiters@state.nm.us](mailto:Kevin.deiters@state.nm.us)





# Education Trust Board of New Mexico INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

July 28, 2014



# Agenda

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V. Overview of 529 Fees	11
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-Fund Monitoring Process	
-529 Team Biographies	

## Introductory Comments: PCA/AKF 529 Team Organizational Structure

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**Eric White, CFA**  
Principal

PCA

**Kay Ceserani,**  
Principal, CCO

PCA

**Andrea Feirstein**  
Managing Director



**Oversight & Senior  
Management**

**Sean Copus,**  
Senior Analyst

PCA

**Ashley Yoshida,**  
Analyst

PCA

**Investment and  
Performance  
Analysis**

**Soohyang Lee**  
Senior Financial  
Analyst



**Analysis / Support**

PCA

PENSION  
CONSULTING  
ALLIANCE

## Introductory Comments: About PCA

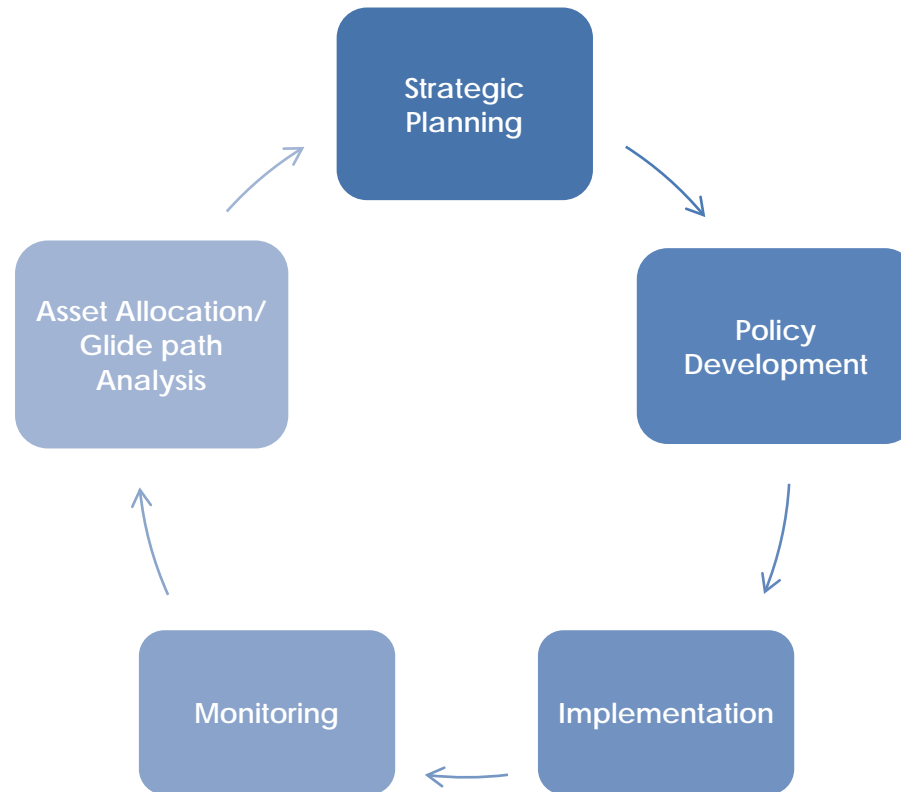
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- PCA is an independent, full-service investment consulting firm providing a broad range of investment advice to a wide variety of sophisticated institutional investors
  - Founded in 1988
  - Strategic alliance with AKF Consulting Group, one of the leading strategic advisor to the college savings industry
- Investment consulting is PCA's only line of business
  - Total client asset under advisement = \$1.1 trillion
- PCA began consulting to the Education Trust Board (ETB) in December 2011
  - Prior to this, PCA did not provide consulting services to any 529 programs run by Oppenheimer
- PCA now provides investment consulting services to 8 state-run 529 College Savings Plans totaling \$42.4 billion in client assets
  - Additional project work for several other 529 College Savings Plans

# Board Governance and Oversight Process

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- ETB's Investment Policy and Performance Monitoring Guidelines provide the framework to make decisions
- Integration across these major areas is key to best practice processes



# Board Governance and Oversight Process

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- ETB utilizes its team of consultants to develop and implement a monitoring and guidelines process:
  1. Established Monitoring Criteria via Investment Policy and Monitoring Guidelines document
  2. Consultant reports criteria breaches and communicates with Program Manager
  3. Consultant monitors and reports on changes in performance and continues dialogue with Program Manager
  4. Recommendations to terminate, restore to normal status, or continue to monitor are made within a 12-18 month time period
  
- ETB responsible for final decisions to add/remove funds from the “Watch” list
  
- Reports provided by PCA to the Education Trust Board
  - Monthly “Performance Flash Report” on all underlying mutual funds
  - Monthly “Investment Risk Metrics Report”
  - Quarterly “Investment Monitoring Report”
  - Quarterly “Watch” list Review and Update Memo
  - Assessment of Oppenheimer’s (OFI) Annual Program Review
  
- ETB and PCA conduct site-visits with OFI for review of risk management

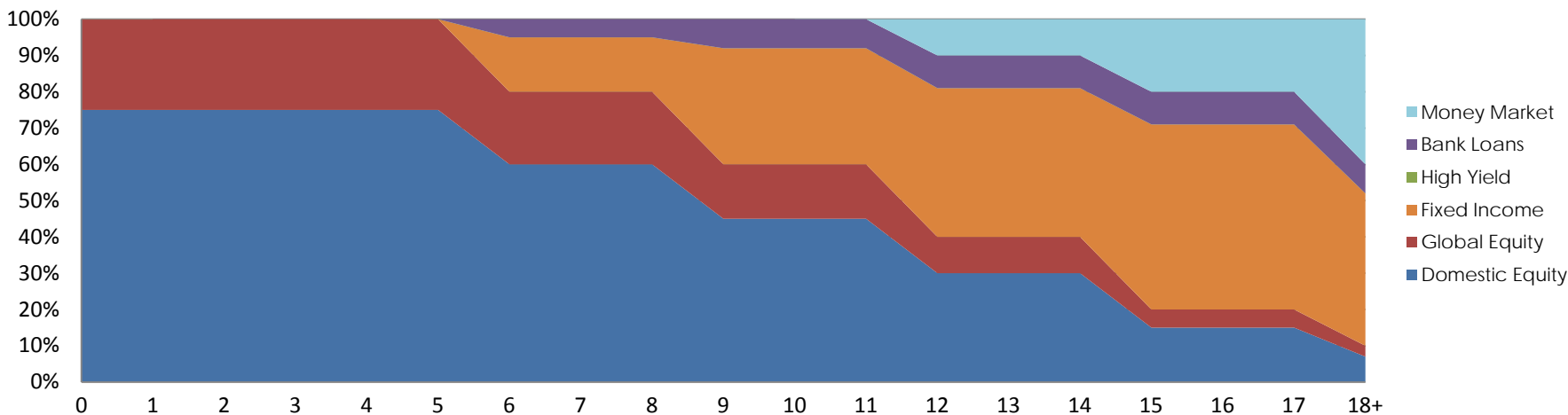
# New Mexico 529 Programs Structure

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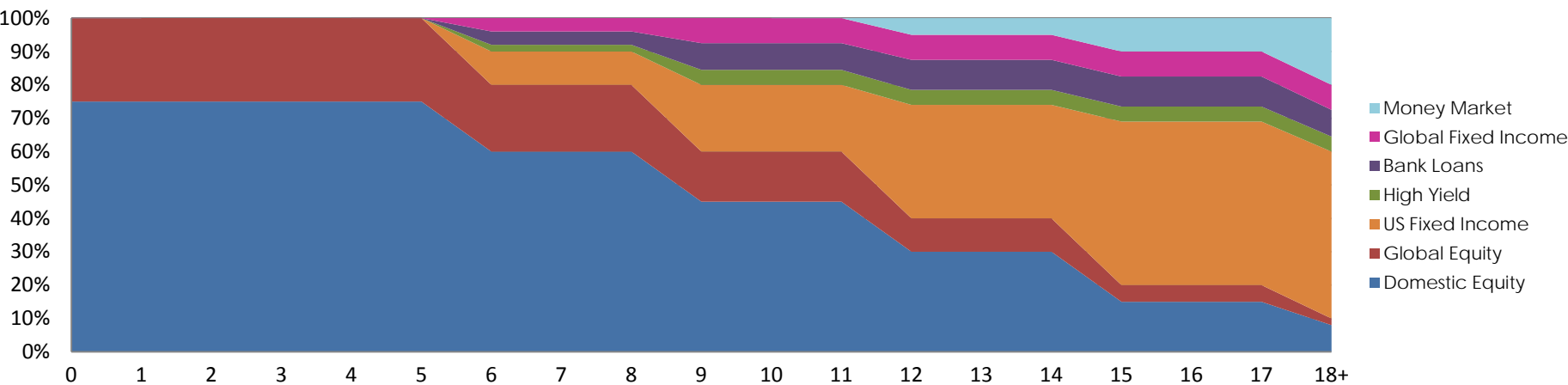
- Recall that the New Mexico College Savings Programs consist of two separate programs
  - The Education Plan – sold directly to participants
  - The Scholar's Edge Plan – sold through investment advisors
  
- Most participants in each plan tend to select an age-based portfolio option
  - Utilizes a glide path structure typically 20 – 22 years in length
  - Typical glide path begins with equity allocation 80% at age 0
  - Adjusts asset allocation over time away from volatile equities and toward more stable fixed income/short-term bond classes near the “draw down” period (college age)
  
- See chart on next page

# New Mexico 529 Programs Structure

The Education Plan Direct-Sold Program



The Scholar's Edge Advisor-Sold Program





## Performance as of 3/31/2014: TEP and SE

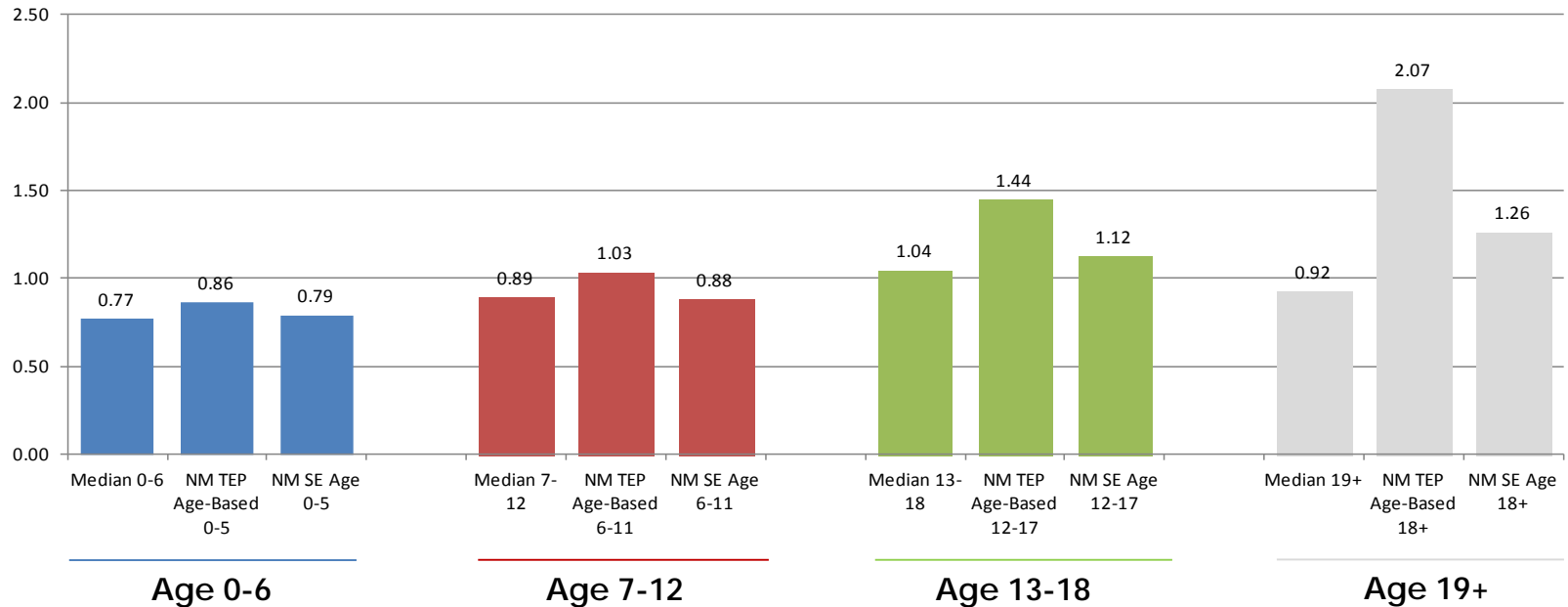
	Quarter		1 Year		3 Years		5 Years	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
<b>NM Age Based 0-5</b>								
NM Edu PI Age-Based 0-5 Yrs	1.76	31	20.86	4	11.84	6	19.86	11
NM TEP 0-5 Benchmark	1.91	16	21.41	3	12.87	1	21.23	2
NM Edu PI Age-Based Idx 0-5 Yrs	1.73	34	20.47	5	12.30	3		
NM TEP Index 0-5 Benchmark	1.69	38	21.49	3	13.14	1		
NM Scholar'sEdge Age 0-5 Aggr A	1.31	70	19.89	8	10.90	16	18.58	25
NM SE 0-5 Benchmark	1.90	17	21.22	4	12.86	1	21.12	2
Morningstar US 529 Age 0-6 Median	1.52		15.52		9.16		16.97	
<b>NM Age Based 6-11</b>								
NM Edu PI Age-Based 6-11 Yrs	1.63	38	14.54	18	9.77	12	15.82	29
NM TEP 6-11 Benchmark	1.76	24	14.80	16	10.13	11	16.41	24
NM Edu PI Age-Based Idx 6-11 Yrs	1.69	30	13.74	23	10.47	6		
NM TEP Index 6-11 Benchmark	1.86	12	14.52	18	10.09	15		
NM Scholar'sEdge Age 6-11 Mod Agg A	1.41	52	13.83	22	9.13	20	15.86	28
NM SE 6-11 Benchmark	2.01	3	15.33	12	10.38	7	17.12	13
Morningstar US 529 Age 7-12 Median	1.44		10.59		7.78		14.33	
<b>NM Age Based 12-17</b>								
NM Edu PI Age-Based 12-17 Yrs	1.24	49	6.24	41	5.81	36	9.01	60
NM TEP 12-17 Benchmark	1.24	49	6.24	41	5.81	36	9.01	60
NM Edu PI Age-Based Idx 12-17 Yrs	1.64	18	5.40	49	6.54	26		
NM TEP Index 12-17 Benchmark	1.73	13	5.66	46	6.69	34		
NM Scholar'sEdge Age 12-17 Cnsv A	1.09	61	5.87	43	5.61	41	9.61	52
NM SE 12-17 Benchmark	1.58	24	7.17	32	6.00	33	9.89	48
Morningstar US 529 Age 13-18 Median	1.21		5.26		5.10		9.87	
<b>NM Age Based 18+</b>								
NM Edu PI Age-Based 18+ Yrs	0.81	50	2.13	50	3.09	37	4.61	59
NM TEP 18+ Benchmark	0.81	50	2.13	50	4.61	7	0.97	92
NM Edu PI Age-Based Idx 18+ Yrs	1.29	11	1.38	56	3.89	18		
NM TEP Index 18+ Benchmark	1.34	11	1.50	54	4.02	15		
NM Scholar'sEdge Age 18+ School Yrs A	0.77	53	2.11	50	3.17	34	5.80	49
NM SE 18+ Benchmark	1.11	21	3.08	36	3.30	31	5.51	50
Morningstar US 529 Age 19+ Median	0.80		2.12		2.52		5.57	

Rank: 1=highest, 100=lowest; GREEN indicates above median results  
 Some Age-Based results have been aggregated for comparison purposes  
 Source: Morningstar Direct

- Latest quarter and 1-year results for the majority of the Active TEP and SE portfolios were in line with or above median peers
- 3-year benchmark results were above median to top decile, indicating the Program's asset allocation is working
- 5-year benchmark results were in line with top quartile to top decile in the early stage of the glide path, and above median in the later stages of the glide path, also indicating the Program's asset allocation is working
- 5-year portfolio results versus peers due primarily to the Core Bond Fund (removed from the Program in 2009)

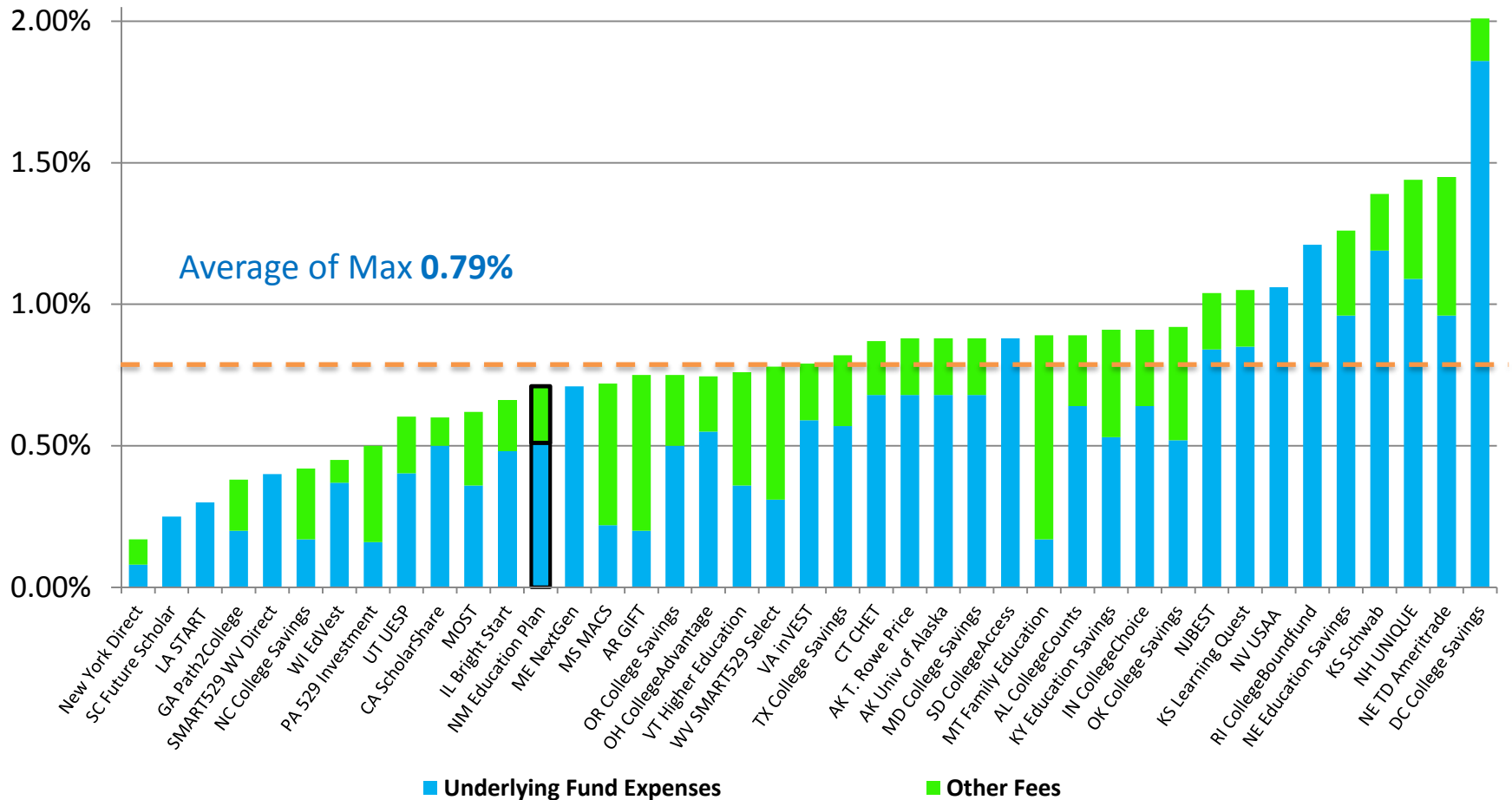
## Performance as of 3/31/2014: TEP and SE

### 3-Yr Risk Adjusted Results (Sharpe Ratio) – As of 3/31/2014



- NM portfolios have better risk-adjusted results than their median peers
- Reveals that the NM portfolios achieve a higher return per unit of risk
- Sharpe Ratio = (Portfolio Return – Risk Free Return) / Standard Deviation

# Select Direct Plan Maximum Fees

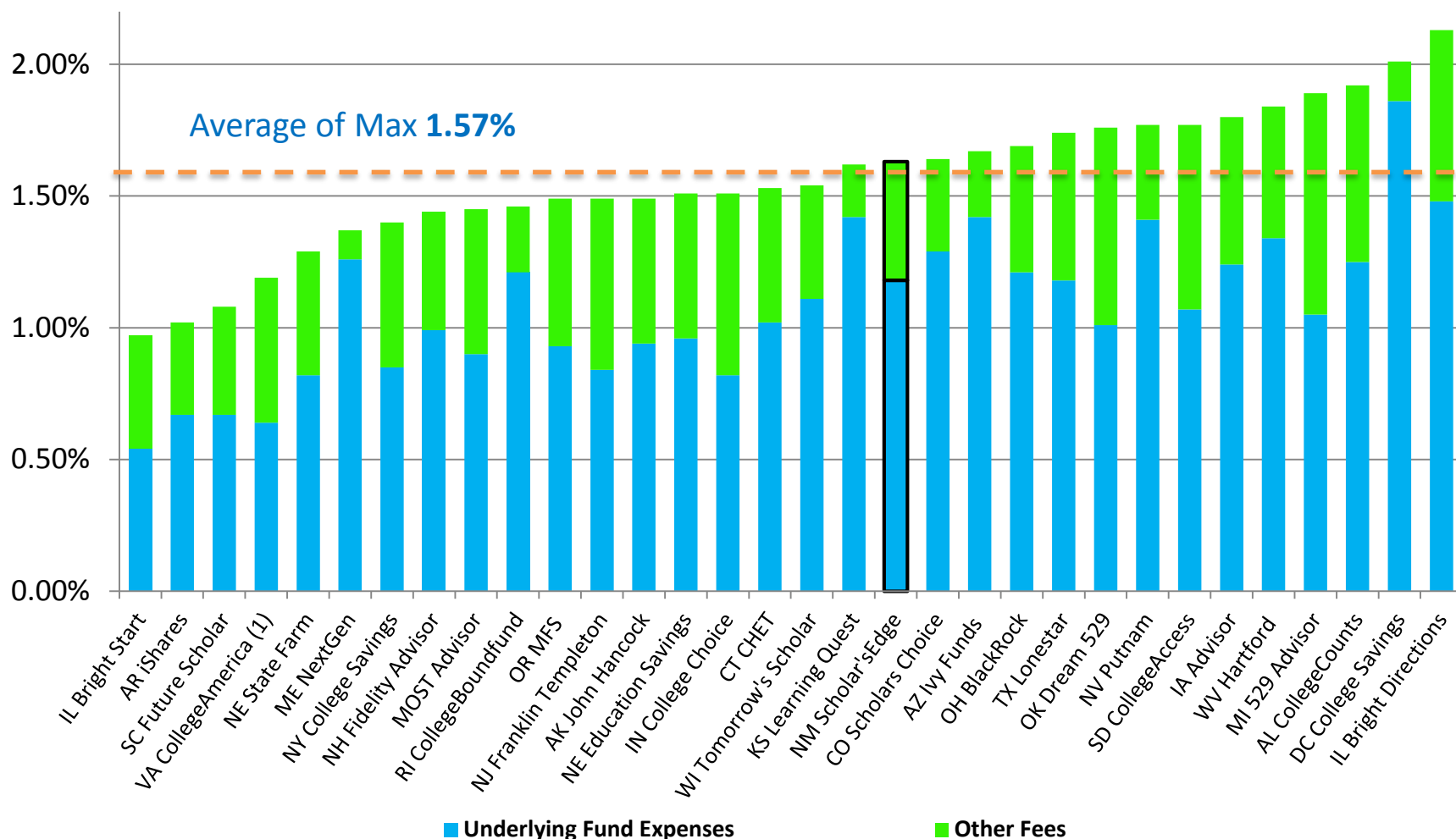


Source: Savingforcollege.com and Plan Offering Documents as of July 24, 2014

Graph does not include (1) Bank Plans in AZ, CO, IN, MT and VA; (2) Fidelity-managed Plans in AZ, DE and MA; (3) Upromise-managed Plans in HI, IA, ND and NV; and (4) TFI-managed Plans in MI and MN

With DC 529 included, average maximum fee would be 0.82%

# Select Advisor Plan Maximum Fees



(1) Does not include the DWGI fund (Total Fee of 1.53%) due to unknown reimbursements

Source: Savingforcollege.com and Plan Offering Documents as of July 24, 2014

Maximum Fees represent A Shares



# APPENDIX

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# Appendix: PCA Fund Monitoring Process

## 1. Establish Criteria

New Mexico Education Trust Board  
Monitoring Procedures and Criteria for the New Mexico College Savings Plans  
December 11, 2013

**Table 1b: Actively Managed Individual Funds**  
(Based on net of fee<sup>2</sup> fund performance)

Asset Class	Sub-Asset Class	Short-Term (rolling 12-month periods)	Medium-term (rolling 36-month period)	Long-term (rolling 60-month periods)
Equity Securities	Domestic Equity	Fund return < benchmark return -2.75% for 6 consecutive months	Fund annualized return < benchmark annualized return -1.5% for 6 consecutive months	VRR < 0.97 for 6 consecutive months
Equity Securities	International Equity	Fund return < benchmark return -4.5% for 6 consecutive months	Fund annualized return < benchmark annualized return -2.0% for 6 consecutive months	VRR < 0.97 for 6 consecutive months
Fixed Income Securities	Fixed Income	Fund return < benchmark return -0.75% for 6 consecutive months	Fund annualized return < benchmark annualized return -0.5% for 6 consecutive months	VRR < 0.98 for 6 consecutive months
Fixed Income Securities	High Yield	Fund return < benchmark return -0.5% for 6 consecutive months	Fund annualized return < benchmark annualized return -3.25% for 6 consecutive months	VRR < 0.96 for 6 consecutive months
Fixed Income Securities	Short-Term	Fund return < benchmark return -0.7% for 6 consecutive months	Fund annualized return < benchmark annualized return -0.2% for 6 consecutive months	VRR < 0.99 for 6 consecutive months

Annualized return is the average annual return of either the fund or its benchmark.  
VRR – Value Relative Ratio – is calculated as: fund cumulative return / benchmark cumulative return.

## 2. Report Breaches of Criteria,

**PCA**  
PENSION CONSULTING ALLIANCE  
MEMORANDUM

Date: April 18, 2014  
To: New Mexico Education Trust Board  
From: Pension Consulting Alliance, Inc. (PCA)  
CC: Jeremy Thiesen - PCA  
Sean Copus - PCA  
RE: "Watch" status Update

**Summary**  
PCA has reviewed the data as of March 31, 2014, for the Education Plan and the Scholar's Edge Plan (the Program). As of the end of the period, **five funds remained on "watch" status, and two new funds qualify for "watch" status.**

The following funds are currently on "Watch" status:

- Oppenheimer Value Fund (OGRX)
- MainStay MAP Fund (MUSX)
- Oppenheimer Main Street Small & Mid-Cap Fund (OPMX)
- Oppenheimer Ring Dividends Fund (ORDI)
- Thornburg International Value Fund (TIVV)

At the end of the period, **two new funds qualify for "Watch" status** under the Monitoring Procedures and Criteria. As a result, PCA recommends the following funds be placed on "Watch" status for performance reasons:

- Vanguard Intermediate-Term Bond Index Fund (VBIX)
- Oppenheimer Equity Income Fund (OEI)

Due to improved performance, the following fund is being recommended for removal for "Watch" status:

- Oppenheimer Main Street Small & Mid-Cap Fund (OPMX)

Each of these items is discussed in more detail below.

## 3. Monitor and Report on Improvement/Deterioration Discussions with Program Manager

THE EDUCATION PLAN  
SUMMARY OF FUND PERFORMANCE STATUS

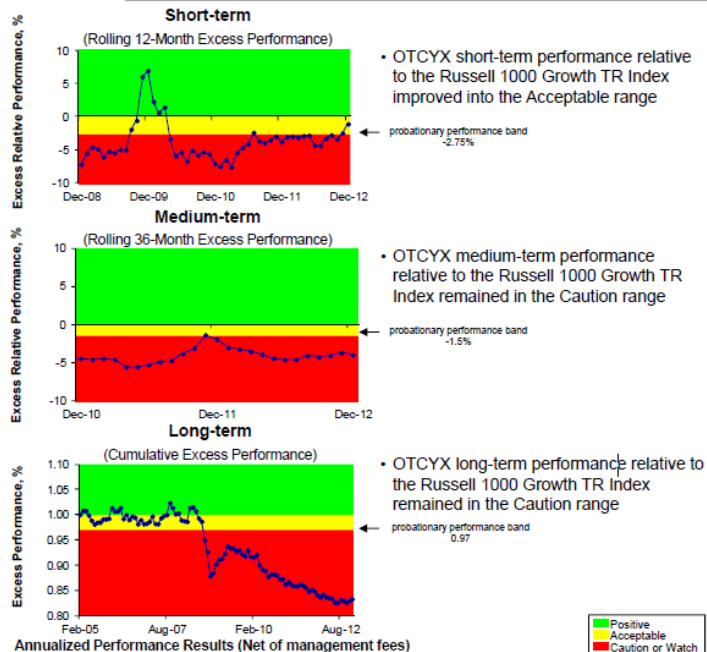
Portfolios	Prior Quarter Status	Current Quarter Status
Dreyfus Basic S&P 500 Stock Index (DSPX)	Positive	Positive
Vanguard Total Stock Market Index Fund (VTSSX)	Positive	Positive
Oppenheimer Main Street (OMSIX)	Acceptable	Positive
Oppenheimer Value I (OGRX)	On Watch	On Watch
Vanguard Extended Market Index Fund (VIEIX)	Positive	Positive
Oppenheimer Main Street Sm & Mid Cap I (OPMX)	On Watch	On Watch
TIAA-CREF International Equity Index Fund (TCIEIX)	Caution	Positive
Oppenheimer International Growth (OIGX)	Positive	Positive
Oppenheimer Global I (OGLIX)	Positive	Positive
Dreyfus Bond Market Index Fund (DBIRX)	Positive	Positive
Vanguard Intermediate Term Bond Index (VBIX)	Caution	Caution
Oppenheimer Limited-Term Government (OLTIX)	Acceptable	Positive
Oppenheimer Senior Floating Rate (OSFIX)	Positive	Positive

## 4. Terminate, Restore to Normal Status, Continue to Monitor

# Appendix: PCA Fund Monitoring Process

## Oppenheimer Capital Appreciation Y (OTCYX)

OTCYX seeks capital appreciation in common stocks of "growth companies" whose earnings and stock prices are expected to increase at a faster rate than the overall market. These may be newer companies or established companies of any capitalization range that the portfolio manager believes may appreciate in value over the long term. The fund may also invest in foreign securities.



Annualized Performance Results (Net of management fees)

	1 Year	3 Year	5 Year	Inc. 2/1/2005
Oppenheimer Cap Appr	14.14	7.34	-0.67	3.26
Russell 1000 Growth TR	15.26	11.35	3.12	5.68
Peer Rank (Percentile)	61	81	80	85

Source: Morningstar Direct Peer Group = US OE Large Growth

### Current Status

On Watch



- Having a process in place helps ensure that trouble spots are identified early
- This continual monitoring is essential as it reveals performance trends
- Process triggers deeper analysis

## Appendix: PCA/AKF 529 Team Biographies

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**Eric White, CFA**  
Principal  
Roseville, CA

Mr. White joined PCA in 2009 and serves as the head of PCA's 529 Practice Area. He currently provides consulting services to PCA's 529 College Savings Plans and is the lead consultant on five of these relationships. Mr. White's focus includes risk budgeting, portfolio and manager attributions analysis, asset class structure reviews, investment manager searches, glide path analysis, and program manager searches.

Previously, Mr. White served as an Intern at Merrill Lynch. His responsibilities included asset allocation modeling and analyzing individual securities and investment products. Prior to joining PCA, Mr. White graduated from the University of San Francisco with a Masters degree in Economics with an emphasis in Finance. His thesis topics included a history of recent financial crises and the role of the Federal Reserve, and the cause and effects of the Yen carry trade.

Mr. White received his Bachelor of Science degree in Economics from the University of Oregon and is a CFA holder and a member of the CFA Society of Sacramento.



**Kay Ceserani**  
Principal, CCO  
Portland, OR

Ms. Ceserani joined PCA in 2008 and provides consulting services for PCA clients across all asset classes. Ms. Ceserani has worked in the investment consulting industry in various roles since 1993. She has extensive experience in the development, execution and monitoring of investment programs for institutional clients across client types, as well as expertise in performing due diligence on money management firms and their products. Ms. Ceserani currently serves as the lead consultant on three 529 College Savings Plans.

Prior to PCA, Ms. Ceserani was a Consulting Project Manager at Yanni Partners in Pittsburgh, PA for six years. Her responsibilities included quarterly analysis of client portfolios, asset allocation studies, asset transitions, manager selection and monitoring and special research projects. Ms. Ceserani has also served as the Director of Operations at Greycourt & Co., Inc in Pittsburgh, PA, the Director of US Equity Research and Consulting Manager at Ennis, Knupp & Associates, in Chicago, IL. She also spent six years at R.V. Kuhns in Portland, OR.

Ms. Ceserani earned a BS in Political Science at the University of Oregon.



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